

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | |
|---|---------------------------------|---|-------------------------|
| Local Government Type TWP. LIBRARY <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name ARMADA FREE PUBLIC LIBRARY | County MACOMB |
| Audit Date 12/31/04 | Opinion Date 06/21/05 | Date Accountant Report Submitted to State: 07/05/05 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

RECEIVED
JUL 05 2005
LOCAL AUDIT & FINANCE DIV

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- Yes No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- Yes No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- Yes No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- Yes No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- Yes No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- Yes No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- Yes No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- Yes No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- Yes No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | X | | |
| Reports on individual federal financial assistance programs (program audits). | | | X |
| Single Audit Reports (ASLGU). | | | X |

| | | | |
|--|-----------------------------|------------------------|---------------------|
| Certified Public Accountant (Firm Name) BUSS & COMPANY, P.C. | | | |
| Street Address 42550 GARFIELD, SUITE 105 | City CLINTON TWP. | State MI | ZIP 48038 |
| Accountant Signature <i>Buss & Company, PC</i> | | Date 7/05/05 | |

BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

ARMADA FREE PUBLIC LIBRARY

Armada, Michigan
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
PREPARED IN ACCORDANCE WITH GASB 34
December 31, 2004

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
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December 31, 2004

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INDEPENDENT AUDITOR'S REPORT

June 21, 2005

Board of Trustees
Armada Free Public Library
Armada, Michigan

Honorable Members:

We have audited the accompanying financial statements of the Armada Free Public Library, as of December 31, 2004, and for the year then ended. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I A, the financial statements present only the Armada Free Public Library and are not intended to present fairly the financial position and changes in financial position for the year then ended of Township of Armada, County of Macomb, Michigan, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Armada Free Public Library as of December 31, 2004, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

Board of Trustees
Armada Free Public Library
June 21, 2005
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As described in Note VI, the Library implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments as of January 1, 2004.

The management's discussion and analysis on pages 3 through 4 and budgetary comparison schedule on page 16, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Respectfully,

BUSS & COMPANY, P.C.



Certified Public Accountants

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ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2004

Using this Annual Report

This annual report consists of three parts - *Management's discussion and analysis* (this section), the *basic financial statements*, and *required supplemental information*. The basic financial statements include information that presents two different views of the Library:

- The *government-wide financial statements* provide both *long-term* and *short-term* information about the Library's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.
- The governmental fund financial statements include information on the Library under the modified accrual method. These *Fund Financial Statements* focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplemental information* that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below provides key financial information in a condensed format for the current year. Since this is the first year the Library has prepared financial statements following GASB Statement 34, comparisons to the prior year are not available.

| | |
|---|------------------|
| Current assets | \$499,062 |
| Capital assets | <u>493,019</u> |
| Total Assets | <u>\$992,081</u> |
| Other liabilities | <u>\$225,726</u> |
| Total Liabilities | <u>\$225,726</u> |
| Net Assets: | |
| Invested in capital assets, net of debt | \$493,019 |
| Unrestricted | <u>273,336</u> |
| Total Net Assets | <u>\$766,355</u> |
| Revenue: | |
| Property taxes | \$211,615 |
| Other | <u>42,543</u> |
| Total Revenue | <u>\$254,158</u> |
| Expenses - Library services | <u>234,681</u> |
| Change in Net Assets | <u>\$ 19,477</u> |

(Continued)

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
December 31, 2004

The Library as a Whole

- The Library's net assets increased by \$19,477 this year. The primary reason for the increase is the growth of the Library's property tax base, which increased 3.2% from the prior year, and reporting of insurance proceeds of approximately \$15,000.
- The Library's primary source of revenue is from property taxes, which represents 83% of total revenue.
- Total expenses were 92% of total revenue for 2004. Salaries amount to approximately 41% of total expenses.

The Library's Fund

Our analysis of the Library's fund is included on pages 7 and 9. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities, such as special property tax millages. All of the Library's activities are reported in a single fund.

The fund balance of the Library increased during the current year by \$8,392. The increase exceeded the budgeted decrease of \$13,000 by \$21,392. Budgeted revenues exceeded actual revenues by \$28,842 due primarily to insurance proceeds being less than expected. Budgeted expenditures exceeded actual expenditures by \$50,234 due primarily to over estimating the costs of building repairs related to an insurance claim.

Library Budgetary Highlights

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The significant amendments made during the year were related to building repairs, which were covered by insurance.

Capital Assets

At the end of the fiscal year, the Library had \$927,221 invested in land, buildings and improvements, furniture and fixtures, equipment, and books and materials. The Library added \$56,128 in new collection items consisting of new books, various audio/visual materials and computer equipment, shelving, and building improvements.

Economic Factors and Considerations for Next Year

The Library's tax base continues to increase with the growth of the Township. We, however, need to continue to watch our budget very closely. Expenditures that will be especially important in the coming year include employee compensation, because it is such a significant portion of the Library's operating budget.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Library Director, at 73930 Church Street, Armada, Michigan 48005.

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
STATEMENT OF NET ASSETS
December 31, 2004

ASSETS

| | |
|-----------------------------------|------------------|
| Cash and cash equivalents | |
| Certificates of deposit | \$150,888 |
| Taxes receivable | 19,562 |
| Due from other governmental units | 218,725 |
| Prepays and other assets | 104,506 |
| Capital assets | 5,381 |
| | <u>493,019</u> |
| Total Assets | |
| | <u>\$992,081</u> |

LIABILITIES

| | |
|--|------------------|
| Accounts payable and accrued liabilities | |
| Accumulated employee benefits | \$ 1,914 |
| Deferred revenue | 5,087 |
| | <u>218,725</u> |
| Total Liabilities | |
| | <u>\$225,726</u> |

NET ASSETS

| | |
|---|------------------|
| Invested in capital assets, net of related debt | |
| Unrestricted | \$493,019 |
| | <u>273,336</u> |
| Total Net Assets | |
| | <u>\$766,355</u> |

See accompanying notes to financial statements.

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
STATEMENT OF ACTIVITIES
Year Ended December 31, 2004

| <u>FUNCTION/PROGRAM:</u> | <u>EXPENSES</u> | <u>PROGRAM REVENUES</u> | | <u>NET (EXPENSE)</u> <u>REVENUE AND CHANGES</u> <u>IN NET ASSETS -</u> <u>GOVERNMENTAL</u> <u>ACTIVITIES</u> |
|-----------------------------|--------------------------|---------------------------------------|-------------------------|--|
| | | <u>CHARGES FOR</u> <u>SERVICES</u> | <u>OPERATING GRANTS</u> | |
| Governmental Activities: | | | | |
| Library services/operations | <u>\$234,681</u> | <u>\$ 21,497</u> | <u>\$ 4,922</u> | <u>(\$208,262)</u> |
| | | | | |
| | <u>GENERAL REVENUES:</u> | | | |
| | | | | \$211,615 |
| | | | | 12,272 |
| | | | | <u>3,852</u> |
| | | | | <u>\$227,739</u> |
| | | | | |
| | | | | \$ 19,477 |
| | | | | |
| | <u>NET ASSETS:</u> | | | |
| | | | | <u>746,878</u> |
| | | | | <u>\$766,355</u> |

See accompanying notes to financial statements.

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
COMPARATIVE BALANCE SHEET
December 31, 2004 and 2003

| <u>ASSETS</u> | <u>2004</u> | <u>2003</u> |
|---|------------------|------------------|
| Cash and cash equivalents | | |
| Investments | | |
| Taxes receivable | \$150,888 | \$143,613 |
| Prepaid expense | 19,562 | 19,104 |
| Due from other governmental units | 218,725 | 209,364 |
| | 5,381 | 4,869 |
| | <u>104,506</u> | <u>112,853</u> |
| Total Assets | <u>\$499,062</u> | <u>\$489,803</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | |
| <u>LIABILITIES:</u> | | |
| Accounts payable | | |
| Accrued payroll and payroll taxes | \$ 1,714 | \$ 7,809 |
| Deferred Revenue - Property taxes | 200 | 2,599 |
| Total Liabilities | <u>218,725</u> | <u>209,364</u> |
| | <u>\$220,639</u> | <u>\$219,772</u> |
| <u>FUND BALANCE:</u> | | |
| Reserved for prepaid expense | | |
| Unreserved, Undesignated | \$ 5,381 | \$ 4,869 |
| Total Fund Balance | <u>273,042</u> | <u>265,162</u> |
| | <u>\$278,423</u> | <u>\$270,031</u> |
| Total Liabilities and Fund Balance | <u>\$499,062</u> | <u>\$489,803</u> |

See accompanying notes to financial statements.

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
RECONCILIATION OF FUND BALANCE TO THE STATEMENT OF NET ASSETS
For The Year Ended December 31, 2004

| | | |
|--|--|------------------|
| TOTAL FUND BALANCE - MODIFIED ACCRUAL BASIS | | \$278,423 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds: | | |
| The cost of capital assets is | | \$927,221 |
| Accumulated depreciation | | (434,202) |
| Total | | 493,019 |
| Accumulated employee leave benefits are not due and payable in the current period and therefore are not reported in governmental funds | | (5,087) |
| NET ASSETS - FULL ACCRUAL BASIS | | <u>\$766,355</u> |

See accompanying notes to financial statements.

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For The Years Ended December 31, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|---|------------------|------------------|
| REVENUES: | | |
| Property taxes | | |
| Penal fines | \$211,615 | \$205,025 |
| State aid | 6,700 | 6,507 |
| State revenue sharing | 5,572 | 5,300 |
| Library fines | - | 6,149 |
| Interest and investment earnings | 2,902 | 3,047 |
| Lost and damaged material | 3,852 | 3,712 |
| Gifts and memorials | 248 | 148 |
| Copy machine | 945 | 1,270 |
| Facsimile machine | 635 | 582 |
| Meeting room rental | 237 | 310 |
| Miscellaneous | 375 | 755 |
| Centralized purchasing credit | 16,155 | 1,134 |
| | <u>4,922</u> | <u>4,922</u> |
| Total Revenues | <u>\$254,158</u> | <u>\$238,861</u> |
| EXPENDITURES: | | |
| Current: | | |
| Salaries | | |
| Payroll taxes | \$ 94,847 | \$ 89,686 |
| Library materials | 7,439 | 6,834 |
| On-line database | 25,960 | 25,481 |
| Utilities | 2,850 | 4,307 |
| Telephone | 9,551 | 9,028 |
| Supplies | 1,540 | 1,393 |
| Insurance and bonds | 8,601 | 4,919 |
| Contract maintenance | 6,663 | 8,068 |
| Building repair and maintenance | 11,888 | 13,445 |
| Staff development, membership, and travel | 17,743 | 4,150 |
| Audit and other professional fees | 435 | 1,355 |
| Program fees | 3,920 | 6,550 |
| Automated services | 1,483 | 1,264 |
| Cooperative services | 19,039 | 18,754 |
| Miscellaneous | 2,781 | 2,650 |
| Capital outlay | 858 | 105 |
| | <u>30,168</u> | <u>14,169</u> |
| Total Expenditures | <u>\$245,766</u> | <u>\$212,158</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>\$ 8,392</u> | <u>\$ 26,703</u> |
| FUND BALANCE - JANUARY 1 | <u>270,031</u> | <u>243,328</u> |
| FUND BALANCE - DECEMBER 31 | <u>\$278,423</u> | <u>\$270,031</u> |

See accompanying notes to financial statements.

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2004

| | | |
|---|-----------|------------------|
| NET CHANGE IN FUND BALANCE - MODIFIED ACCRUAL BASIS | | \$ 8,392 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation expense. | | |
| Capital outlay | \$ 56,128 | |
| Depreciation expense | (44,025) | |
| Total | | 12,103 |
| Expenses for employee leave benefits are recorded when earned in the statement of activities: | | |
| Reversal of employee leave benefits earned in prior years | \$ 4,069 | |
| Employee leave benefits at year end | (5,087) | |
| Total Effect of Employee Leave Benefits | | (1,018) |
| CHANGE IN NET ASSETS - FULL ACCRUAL BASIS | | <u>\$ 19,477</u> |

See accompanying notes to financial statements.

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Armada Free Public Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

A. GOVERNMENTAL REPORTING ENTITY

The Library is located in the Township of Armada, Michigan and is governed by an elected six-member board. The Library was formed under P.A. 164 of 1877. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board and include only the results of operations of the Library.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in two parts - invested in capital assets, net of related debt; and unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to library patrons who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues, and are reported instead as general revenue.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Library reports all of its activities in a single fund on the modified accrual basis.

(Continued)

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2004

C. ASSETS, LIABILITIES AND FUND EQUITY

Cash and Investments - The Library has defined cash and cash equivalents to include cash on hand, demand deposits and short-term investments with original maturities of three months or less.

The Library is authorized by state statute to invest surplus funds in bonds or other direct obligations of the United States, certificates of deposits, certain commercial paper, U.S. Government repurchase agreements, bankers acceptances, mutual funds and investment pools that are invested in authorized investment vehicles.

Receivables and Payables - Property taxes receivable represent uncollected property taxes levied on December 1, 2004.

Property taxes are levied on each December 1st on the taxable value of property (as defined by state statutes) located in Armada Township.

Although the Library's 2004 property tax is levied and collectible on December 1, 2004, it is the Library's policy to recognize revenue from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2004 taxable valuation of the Township totals \$205,097,974, on which ad valorem taxes levied consisted of 1.0665 mills for Library operations, raising \$218,725 for Library operating purposes. This amount is recognized in the financial statements as taxes receivable with an offsetting credit to deferred revenue. Taxes receivable has been reduced for amounts received during 2004.

Capital Assets - Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Due to the significance of the Library's annual acquisition of Library books and materials and the shelf life on most materials extended beyond two years, annual acquisitions of books and materials are treated as capitalized assets in order to spread their cost over their estimated useful life. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| | |
|-----------------------------|-------------|
| Furniture and equipment | 5-20 years |
| Improvements | 20-40 years |
| Library books and materials | 7 years |

Compensated Absences - Certain employees of the Library earn leave benefits on an annual basis. A liability for annual leave benefits has been accrued in the government-wide financial statements. A liability for these amounts is not reported in the General Fund as of year end.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

Reservations of equity show amounts that are not appropriate for expenditure or are legally restricted for specific uses.

(Continued)

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2004

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGETS

An annual operating budget on the modified accrual basis of accounting consistent with generally accepted accounting principles is formally adopted for the Library. The budget can be amended by approval of the majority of the Board of Trustees. Amendments are presented to the Board at their regular meetings. All annual appropriations lapse at fiscal year end.

III. DETAILED NOTES

A. DEPOSITS AND INVESTMENTS

At year end, the Library's carrying amount of deposits was \$150,888 and the bank balance was \$172,544. Of the bank balance \$100,000 was covered by federal depository insurance and \$72,544 was uninsured and uncollateralized.

Investments

Investments made by the Library are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk within the following three categories:

- Category 1 - Insured or registered, or securities held by the Library or its agent in the Library's name.
- Category 2 - Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the Library's name.
- Category 3 - Uninsured and unregistered, with securities held by the counter-party, or by its trust department or agent, but not in the Library's name.

| | <u>C A T E G O R Y</u> | | | <u>CARRYING AMOUNT</u> |
|-------------------------|------------------------|-------------|-------------|------------------------|
| | <u>1</u> | <u>2</u> | <u>3</u> | |
| Certificates of deposit | <u>\$ 19,562</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 19,562</u> |

B. DUE FROM OTHER GOVERNMENTAL UNITS

The balance at December 31, 2004 consists primarily of amounts due from Armada Township.

(Continued)

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2004

C. CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2004 follows:

| | <u>BEGINNING</u> <u>BALANCE</u> | <u>ADDITIONS</u> | <u>DELETIONS</u> | <u>ENDING</u> <u>BALANCE</u> |
|---|------------------------------------|------------------|------------------|---------------------------------|
| <u>NON-DEPRECIABLE ASSETS:</u> | | | | |
| Land | \$ 37,500 | \$ - | \$ - | \$ 37,500 |
| <u>DEPRECIABLE ASSETS:</u> | | | | |
| Buildings and improvements | \$499,334 | \$ 21,541 | \$ - | \$520,875 |
| Furniture and equipment | 171,829 | 8,627 | - | 180,456 |
| Circulating materials | 162,430 | 25,960 | - | 188,390 |
| Total Depreciable Assets | <u>\$833,593</u> | <u>\$ 56,128</u> | <u>\$ -</u> | <u>\$889,721</u> |
| Total Assets | <u>\$871,093</u> | <u>\$ 56,128</u> | <u>\$ -</u> | <u>\$927,221</u> |
| <u>ACCUMULATED DEPRECIATION:</u> | | | | |
| Buildings and improvements | \$169,254 | \$ 13,018 | \$ - | \$182,272 |
| Furniture and equipment | 140,394 | 7,417 | - | 147,811 |
| Circulating materials | 80,529 | 23,590 | - | 104,119 |
| Total Accumulated Depreciation | <u>\$390,177</u> | <u>\$ 44,025</u> | <u>\$ -</u> | <u>\$434,202</u> |
| Total Capital Assets, Net | <u>\$480,916</u> | <u>\$ 12,103</u> | <u>\$ -</u> | <u>\$493,019</u> |

IV. DEFERRED COMPENSATION PLAN

The Library has adopted a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or financial hardship.

The Library's plan administrator, ICMA Retirement Corporation, has created a trust and placed the plan assets within the trust. As a result, the plan assets are insulated from the Library's general creditors. Thus, the plan assets are not reported in the Library's financial statements as the Library does not have any fiduciary or administrative responsibility for the plan assets.

V. RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, unemployment benefits, as well as medical and workers' compensation benefits provided to employees. The Library has purchased commercial insurance to cover these losses.

(Continued)

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2004

VI. ACCOUNTING CHANGE

Effective January 1, 2004, the Library implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Significant changes in the statement include the following:

- A Management's Discussion and Analysis (MD & A) section providing an analysis of the Library's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Library's activities.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

Buss & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

REQUIRED SUPPLEMENTAL INFORMATION

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
BUDGETARY COMPARISON SCHEDULE
For The Year Ended December 31, 2004

| | <u>BUDGETED AMOUNTS</u> | | <u>ACTUAL</u> | <u>VARIANCE WITH</u> |
|---|-------------------------|---------------|--|---|
| | <u>ORIGINAL</u> | <u>FINAL</u> | <u>AMOUNTS</u> <u>(BUDGETARY BASIS)</u> | <u>FINAL BUDGET</u> <u>POSITIVE</u> <u>(NEGATIVE)</u> |
| REVENUES: | | | | |
| Property taxes | | | | |
| Penal fines | \$218,000 | \$212,000 | \$211,615 | (\$ 385) |
| State aid | 7,000 | 7,000 | 6,700 | (300) |
| State revenue sharing | 6,000 | 6,000 | 5,572 | (428) |
| Charges, fees and fines | - | 6,000 | - | (6,000) |
| Interest and investment earnings | 8,500 | 8,500 | 5,342 | (3,158) |
| Centralized purchasing credit | 3,500 | 3,500 | 3,852 | 352 |
| Miscellaneous | 5,000 | 5,000 | 4,922 | (78) |
| | <u>2,000</u> | <u>35,000</u> | <u>16,155</u> | <u>(18,845)</u> |
| Total Revenues | \$250,000 | \$283,000 | \$254,158 | (\$ 28,842) |
| EXPENDITURES: | | | | |
| Salaries and wages | \$103,000 | \$103,000 | \$ 94,847 | \$ 8,153 |
| Payroll taxes | 8,000 | 8,000 | 7,439 | 561 |
| Library materials | 31,000 | 31,000 | 25,960 | 5,040 |
| Databases, on-line | 5,000 | 5,000 | 2,850 | 2,150 |
| Utilities | 10,000 | 10,000 | 9,551 | 449 |
| Telephone | 2,000 | 2,000 | 1,540 | 460 |
| Supplies | 7,000 | 11,500 | 8,601 | 2,899 |
| Insurance | 8,000 | 8,000 | 6,663 | 1,337 |
| Contract maintenance | 15,000 | 15,000 | 11,888 | 3,112 |
| Building repairs and maintenance | 5,000 | 30,000 | 17,743 | 12,257 |
| Staff development | 3,000 | 3,000 | 435 | 2,565 |
| Legal and accounting | 10,000 | 10,000 | 3,920 | 6,080 |
| Programs | 2,000 | 2,000 | 1,483 | 517 |
| Automated services | 20,000 | 20,000 | 19,039 | 961 |
| State aid payment | 3,000 | 3,000 | 2,781 | 219 |
| Miscellaneous | 3,000 | 3,000 | 858 | 2,142 |
| Capital outlay | <u>15,000</u> | <u>31,500</u> | <u>30,168</u> | <u>1,332</u> |
| Total Expenditures | \$250,000 | \$296,000 | \$245,766 | \$ 50,234 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | \$ - | (\$ 13,000) | \$ 8,392 | \$ 21,392 |

See accompanying notes to financial statements.

BUSS & COMPANY, P.C.

Certified Public Accountants
42530 Garfield, Suite 105
Clinton Township, Michigan 48038

Telephone (586) 263-8200
Facsimile (586) 263-8329

Gerald H. Dryer, C.P.A.
Paul K. Burback, C.P.A.
John E. Gideon, C.P.A.
Thomas J. Thomas, C.P.A.

MEMBERS
The American Institute of
Certified Public Accountants
The Michigan Association of
Certified Public Accountants

June 21, 2005

To the Library Board
Armada Free Public Library
Armada, Michigan

Re: Supplemental System and Internal
Control Comments and Recommendations
in conjunction with audit for the year
ended December 31, 2004

Honorable Members:

In planning and performing our audit of the financial statements of Armada Free Public Library for the year ended December 31, 2004, we considered the Library's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated June 21, 2005 on the financial statements of Armada Free Public Library.

New Financial Reporting Model

Effective January 1, 2003, the Library implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Significant changes in the statement include the following:

- A Management's Discussion and Analysis (MD & A) section providing an analysis of the Library's overall financial position and results of operations.
- Financial Statements prepared using full accrual accounting for all of the Library's activities.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

Budgets

We have reviewed the budgets for compliance with the Uniform Budgeting and Accounting Act P.A. 621 of 1978. The act requires that expenditures in a specific appropriations account beyond the amount of the original budget (general appropriations act), be approved by the Board with a transfer or supplemental appropriation. During the year ended December 31, 2004, the Library did not incur expenditures in excess of the amounts appropriated by the Board.

Fund Balance

During 2004, the Library's General Fund revenues exceeded expenditures by \$8,392. As a result, General Fund equity increased to \$278,423 at December 31, 2004.

A portion of the fund equity, \$5,381, is reserved for prepaid expenses and \$273,042 is unreserved and undesignated. By maintaining an appropriate fund equity, the Library is able to meet unforeseen circumstances without affecting the level of programs for the year. The Library's unreserved, undesignated fund equity is equal to approximately 1.11% of annual expenditures, or 58 weeks of operation.

This report is intended solely for the information and use of the Board of Trustees, management, and others within the administration of the Armada Free Public Library. This restriction is not intended to limit distribution of this report which, upon acceptance by the Board of Trustees, is a matter of public record.

We would like to thank the Armada Free Public Library staff for their help and cooperation during our audit.

Respectfully submitted,

BUSS & COMPANY, P.C.



Certified Public Accountants